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ABSTRACT

The papers and discussions which follow were presented at the December 1973 meetings of the Allied Social Science Associations in New York City. They provide a stimulating review and perspective on the state of policy and reform possibilities in income maintenance and the welfare system. In his paper, "The Role of Income-Conditioning in the American System of Transfer," Robert J. Lampman notes that between 1960 and 1973 public social welfare expenditures increased from 52 billion dollars to 215 billion dollars. In addition, there is a growing set of private transfers to persons. The scope and scale of this system have grown particularly rapidly since 1964. Lampman points to a few of the more remarkable changes of recent years. The changes selected for discussion were all designed to concentrate their benefits on families in relatively low-income status. The recent moves toward more income-conditioning of benefits suggest that advocates of a simple, straight-forward negative income tax with a moderate tax rate in it are caught between a rock and a hard place. In his paper, "Reflections on Recent History," James Tobin suggests six lessons we can learn from the dismal legislative and political history of tax and welfare reform in recent years. Alice M. Rivlin and Alvin L. Schorr discuss several aspects of these two papers. (Author/JM)

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# INSTITUTE FOR RESEARCH ON POVERTY DISCUSSION PAPERS

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Robert J. Lampman

Reflections on Recent History
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Discussion
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## The Role of Income-Conditioning in the American System of Transfers

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March 1974

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## ABSTRACT

The papers and discussions which follow were presented at the December 1973 meetings of the Allied Social Science Associations in New York City. They provide a stimulating review and perspective on the state of policy and relevant possibilities in income maintenance and the welfare system.

Harold W. Watts, session chairman

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Robert J. Lampman

Between 1960 and 1975 social welfare expenditures under federal, state and local government programs increased from $52 billion to $323 billion. They were equal to 11.8 percent of gross national product (GNP) in 1960 and 17.2 percent in 1975. The three leading classifications of these expenditures are social insurance ($84 billion), education ($61 billion), and public aid ($28 billion). Lesser amounts are absorbed under health and medical programs, veterans programs, "other social welfare," and housing. In addition to these public expenditures, there is a growing set of private transfers to persons in the form of cash gifts or pensions, health insurance benefits, scholarships and charitable grants. Some portions of public and private transfers, in cash and services, is financed by taxes, which, in some cases, are designed to further welfare purposes, and in private contributions. The public and private components of this American system of transfers are also in and part not an amount equal to almost one-fourth of GNP, but that share seems destined to grow.

The scope and scale of this system have grown particularly rapidly since 1964, starting with the introduction of Medicare and Medicaid (at federal and to state/county and economic education, and continuing into recent years with other innovations as well as with the expansion and existing programs. I will, in this brief, point to a few of the more remarkable changes of recent years. The changes achieved for disadvantaged were all designed to concentrate more benefits on families in relatively

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benefits, has gone some distance. There are only two basic ways to back off from the prospect of high cumulative tax rates. One way is to reduce the combined guarantee and the other is to extend the break-even points of some or all of the benefits. Neither is likely to be happily received by everybody. The first means reducing benefits for poor people; the second means raising taxes.

Ways to Reduce Combined Tax Rates

Ways to limit the combined guarantee include the following. Legislation can require that the benefit from one program be subtracted from the guarantee of another. Thus, social security benefits must be subtracted from the guarantee of SSI. Another rather clever way to limit the combined guarantee is to consolidate two programs by folding the current budget of an as-yet-undeveloped program into the proposed budget of another and producing a new combined guarantee which is actually less than the formulas would dictate. This seems to be how foodstamps were "cashed out" for SSI recipients. A different way is to count the benefits of one program as "income" in computing the benefits of the next. Thus, AFDC benefits are "countable income" for foodstamps. Another technique is to design benefits to avoid simultaneous receipts. Legislation could specify, for example, that anyone claiming foodstamps is ineligible for a housing allowance, or, legislators could simply anticipate that few families will claim income-conditioned pre-school and college aid at the same time.

The other basic tactic for avoiding high cumulative tax rates is to extend break-even points of one or more of the benefits. Set-asides, disregards, and deductibles will accomplish this. Another way is to simply not income-condition the benefit at all and to let the break-even

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point be determined by the tax system. The model here is public education. Perhaps the next best candidate for this kind of treatment is medical care benefits. A way to at least confuse the break-evens is to use a different income accounting period for each benefit. Some may use a month, some a quarter, some a year. BOG would use the income of the prior year as the base for the current year's benefit. The British Family Income Supplement uses an estimate of future earnings as the base. Still a different way to extend a break-even is to allow considerable flexibility in the definition of the "family" whose income is to be counted. Congress tried to confine college students applying for food-stamps to the families who claimed them as income tax dependents, only to have the Supreme Court find such a restriction in violation of Constitutional due process. (See U.S. Department of Agriculture v. Murry, 41 LW 5099, U.S. Sup. Ct. No. 72-848, June 23, 1973.) It would seem likely that this same reasoning would apply to the income tax dependency test in the BOG scheme. If it were, many college students from affluent families would go "independent" and claim the maximum grant. This would only be an extension of a profound trend in welfare law toward narrowing family responsibility. SSI cuts the few remaining legal ties between children and their aged parents. Note that in the cases cited, guarantees and nominal tax rates are unchanged, but people behave in such a way as to increase the number of beneficiaries and the cost to the treasury. High cumulative tax rates will encourage such behavior.

The set of in-kind income-conditioned benefits now in place and on the horizon seem to leave little room for a cash benefit for the non-categorical or working poor. Even a plan with an implicit tax rate of about one-third--like the McGovern plan or the proposed British tax

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credit scheme, which, incidentally has no guarantee for those earning less than one-fourth the average wage--would appear to be rivalrous with foodstamps, medicaid, a housing allowance, and other benefits and positive rates we have mentioned. Some have advocated an earnings subsidy as a way out of this problem. Thus, the Senate recently passed a bill to refund to workers the social security tax (both that paid by the employer and the employee) on earnings up to $4000 (at that point the refund would equal $400) and to diminish the refund to zero at $6000 of earnings. This would offset to a minimal degree the cumulated tax rates listed above with respect to earnings below $4000, but would introduce a new implicit tax rate of 20 percent between $4000 and $6000 of earnings. Another "way out" is a wage rate subsidy, but that is not easy to confine to poor families, it sets up disincentives to taking jobs at higher wages, and it is difficult to administer. Both an earnings subsidy and a wage rate subsidy are antithetical to deductibility of child care expense. The alternatives of subsidizing private employers or public agencies to create jobs for the poor have at least as many problems as earnings and wage rate subsidies.

A Concluding Comment

The recent moves toward more income-conditioning of benefits mean, it seems to me, that advocates of a simple, straight-forward negative income tax with a moderate tax rate in it are caught between a rock and a hard place. They may wriggle out of the difficulty by designing a negative income tax with very low tax rates or by shifting over to an earnings subsidy (which means negative rates). Or, they may try to cancel out or consolidate guarantees or extend the break-evens of some of the non-cash

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income-conditioned benefits. Stating the alternatives this way is to indicate my belief that we are approaching the outer limits of income-conditioning.

The practice of confining benefits to low-income families is based upon what might be called the doctrine of minimum provision. As we have seen, it seems to have its own internal dynamic. If minimum provision is assured for education, why is it not also for health care, food, housing, pre-school child care, higher education, legal services, and yet other goods and services? The level of minimum provision is often set well above the level that families with median income will voluntarily consume, e.g., federal standards for child care. The only restraints on this dynamic appear to be unwillingness to tax the non-beneficiaries in order to fully fund the high standards for all eligibles, and concern for high cumulative tax rates on beneficiaries.

The next phase in the development of the American system of transfers may see a greater emphasis on two other doctrines that power the growth of the system. These are the doctrine of sharing income loss and the doctrine of sharing in extraordinary expenditures. The recent emphasis on income-conditioning may turn out to be only a chapter in a longer book.

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## REFLECTIONS ON NEGATIVE INCOME

James Tobin

When I first became interested in the negative income tax (NIT) in 1964, I had some hope of seeing it adopted but not very much. The Johnson Administration was divided, but generally unfriendly. H.E.W. was committed to gradual improvement of social insurance and existing programs of categorical assistance. The "war on poverty" was supposedly attacking the educational, economic, and social causes of poverty. The Council of Economic Advisers and Budget Bureau could not have found the money for a negative income tax even if they had been thoroughly convinced of its merits.

Nevertheless there were signs that it was an idea whose time was coming. As the press, the public, the Congress worried more and more about welfare reform, the NIT inevitably came to their attention. Although the NIT is naturally an economists' idea, it began to appeal to some professional social workers disillusioned with categorical public assistance. Two or three Congressmen actually introduced NIT bills.

President Johnson postponed decision, and personally stilled the disagreements of his advisers, by the customary device of appointing a Commission. Chaired by Ben Heineman, the President's Commission on Income Maintenance Programs diligently studied poverty and public assistance in the United States and came out for a negative income tax. The report is excellent in all respects, but President Johnson was not on hand to receive it and his successor was not greatly interested in the findings of a lame duck commission.

President Nixon was putting advice elsewhere, notably from Pennsylvania Republican, his first counselor on domestic affairs. In the debate during the previous five years, Republicans had advocated additional children's allowances and had also bitterned when I and others pointed out how costly and wasteful it was to give money indiscriminately to rich children and poor. Now in the White House, face to face with budgetary realities, he developed and sold the Family Assistance Plan, a culture of the welfare system based on some of the principles of NIT.

There were many objectionable features of FAP in the area of incentives: income guarantees inadequate, marginal tax rates too high, childless couples and single adults excluded, rules and administration not integrated with income tax, excessive power left to states. The work-relief elements which the Administration used as a smokescreen to conceal the fact that it was advocating guaranteed income was disingenuous and often disgusting.

Nonetheless I would have voted for FAP as a step forward, hopeful it would not be the last step. I don't know whether or to what it FAP would get through the Congress. Probably there is blame enough for everyone, both the liberals whom Moynihan derided and the conservatives shocked the White House often antagonized and never pacified. It is quite possible that with Moynihan in Cambridge or New Delhi and the business of the 1972 campaign learned, the Administration was only too happy to drop the whole matter.

Now, in 1973, the negatives become two no longer seem like an endless chain time in review. Much its time in part, its life to the efficacy of our effort. In the United States, that is. Meanwhile the reassurance the government in the U. S. is about to implement a system of refundable

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family be penalized for the delinquency of one of its adult members; the benefits or tax credits due to the other adults and children would continue.

Sixth, the general public also resents supporting the children of fathers who have deserted them. Men and women who fulfill their own responsibilites as parents don't wish to be burdened with expenses left behind by parents who have abandoned these responsibilities. Worries on this point have some foundation, as indicated by the continuing growth in the number of dependent female-headed households. Current welfare programs contain provisions for seeking out absent fathers and requiring them to contribute to the support of their deserted children. But these provisions have never been very effective. It is fair to say that they have not been popular with social workers, who have seen them as an authoritarian and punitive attempt to impose bourgeois values on the poor. There is justice in the suspicion, but it is unfortunately no trivial matter if the society ends up supporting millions of deserted mothers and children whose fathers are earning comfortable incomes elsewhere.

A possible answer is to assess an extra tax on the income of an absent father or mother for every child he or she is not supporting--unless of course the obligation has been undertaken by a step-parent or foster parent. To enforce this penalty it would be necessary to assign children social security numbers at birth and to associate them with the numbers of their parents. These social security numbers would also be the basis for claiming NIT benefits, tax credits, or dependents' exemptions on account of children; they would prevent the same child from being claimed as dependent in more than one family.

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# DISCUSSION

Alice M. Rivlin

Whoever asked three economists and a social worker to play "historian for a day" was a brave man. Inevitably, he has elicited three very different interpretations of the meaning of recent events for the future of income maintenance and welfare reform.

Professor Tobin, in his new role as current historian, reflects on "the dismal legislative political history of tax and welfare reform in recent years." He is concerned with why there has been so little reform and offers six lessons from history, which are mostly prescriptions for what not to do next time. Professor Lampman is more positive, emphasizing the big changes that have occurred in the last several years. But he sees the changes as raising new problems and sounds anything but optimistic about the future.

History is only "dismal" if one expected more rapid progress. Personally I have been struck with how far we have moved, both intellectually and politically, toward a workable income maintenance system since the problem surfaced in the mid-1960s. Let us go back to 1966, which was after all only eight years ago. Looking around in that year, one would have seen a creaky welfare system, designed thirty years before for very different problems, coming under nearly universal attack. The AFDC program, which had been designed to handle the "temporary" problem of widows and orphans not yet covered by ocial ecurity, was growing rapidly and unexplainably. Families on welfare were subject to 100 percent tax rates, almost no aid was available for families with a male

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head, and the strictness of the welfare categories was maintained by a man-in-the-house searches.

The academic economists had diagnosed the problem and come up with a neat solution. They wanted to replace the whole welfare system with a negative income tax, which would guarantee everyone a minimum income based on family size and preserve incentives to work by reducing the benefit payment substantially less than one dollar for every dollar earned. The negative tax seemed to solve the problem of poverty, work incentives, and family break-up all at once. It was a clean, attractive, utopian scheme and most of us, like Professor Tobin, "had some hope of seeing it adopted, but not very much." We thought there would be plenty of time to design, carry out, and analyze a negative income tax experiment before serious consideration need be given to drafting legislation.

President Johnson was not at all interested in the negative income tax. I don't think he ever explicitly rejected it; he just did not think that anything with so little appeal as welfare reform was worth thinking about. Then came the 1968 election. Those of us who had tried and failed to sell a Democratic Administration the basic idea of welfare reform assumed the jig was up, at least for a while.

But we were wrong. In the next four years events moved much faster than any of us thought possible. A Republican President proposed a basic welfare reform which looked very much like a negative income tax, and the Congress took it seriously. Indeed, considering that it was a new idea stemming from a President of the opposite party the Congress gave the plan a remarkably warm reception. The Family Assistance Plan passed the House of Representatives twice and could have passed the Senate had

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an ambivalent President not changed his mind in the middle of a reelection campaign. Perhaps in the heat of the election he realized that Johnson was right: there are no votes in welfare.

Professor Tobin professes not to know "whose fault it is that FAP never got through the Senate." In my opinion, although the arch radicals and the rabid conservatives deserve their share, the blame lies squarely with the Chief Executive for backing away at the crucial moment from the workable compromise worked out by Senator Ribicoff and then Secretary of HEW Elliott Richardson.

Despite these reverses, as Professor Lampman points out, the last several years have seen substantial steps in the direction of a universal income maintenance system which would eliminate poverty without discouraging work. The AFDC program has been liberalized. The Supplemental Security Income Program (SSI) is essentially a negative income tax for the aged. The Food Stamp Program now has universal federal standards and has grown into a kind of negative income tax in-kind, available to the working poor as well as to people in the welfare categories.

My own view of history is somewhat Tolstoyan--great battles won or lost because a single soldier picks up the flag and runs the right (or the wrong) way at the crucial moment. If President Nixon had supported the Richardson-Ribicoff compromise and the Family Assistance Plan had become law, perhaps Professor Tobin would be remarking with surprise on the rapidity of progress.

Perhaps, however, he would not have been optimistic even if FAP had passed, since he saw FAP as incrementalist, "not a strategy which would lead gradually to a more fundamental reform." He believes that

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true progress in the income maintenance area must involve reform of the tax system and that both transfers and taxes must be handled under a single system by the Internal Revenue Service.

I disagree. I believe it is possible to have a dignified well-run income maintenance system administered by an agency other than the IRS. The new SSI system, administered by Social Security, does not seem to be obviously inferior to a negative income tax for the aged administered by IRS. The administrative problem of running an income transfer system for low income people is quite different from that of collecting a positive tax. The accounting period had to be shorter, different kinds of information have to be collected, the definition of income may have to be different. Hence, forms and procedures will have to be different for negative than for positive taxpayers even if the same agency administers both programs.

Indeed, I would suggest that recent history may yield a seventh lesson; namely, that the strict tax approach to income maintenance has almost zero political appeal. To be sure, its proponents have not explained it adequately (even to presidential candidates) and should try harder. Nevertheless, it must be recognized that enthusiasm for coupling the positive and negative tax systems remains low, especially in the corridors of the Internal Revenue Service.

But the most important lesson of the recent history seems to me that economists and other policy analysts simply have to work harder on policy problems if they are to come up with practical solutions. Solving the income maintenance problem will require more than coming up with neat sounding proposals. It will be necessary to think these

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proposals through carefully, to explore how they would relate to existing programs and how they would be administered. We are all a lot wiser now than we were in 1968. We know a lot about messy things like the problem of cumulative marginal tax rates and the crucial importance of accounting periods. We are all too aware of the equity problems created by the fact that any program which relates "need" to family size results in substantial transfers from small to large families with the same income level.

I am not saying that the policy analysts of 1968 were politically naive--worse than that, we were technically naive. We were like theoretical physicists trying to build a bridge or a bomb. We simply did not understand how complicated practical problems were. Now that we do, perhaps progress will be faster.

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DISCUSSION

Alice G. Gribbon

As members of this panel know, I have long thought the negative income tax an ill wind that no one, no matter how dedicated, would blow good. I was, therefore, from a fairly early point, opposed to this President's welfare reform. But I am heartened by Professor Tobin's and Professor Lampman's papers which forego arguments about "who did whether to whom," to extract lessons from the experience of the last few years. A good very one, in small, thoughtful and practical. So we begin to move forward once more.

I would like to point to one lesson that is, it seems to me, implicit in Professor Tobin's paper, although it appears he seems to overlook it in his own self. That is, none of the income maintenance proposals that has recently been put forward is intrinsically efficient or inefficient. Tax credits, negative income tax, children's allowances, welfare reforms may be efficient or inefficient, depending on design. While he favors a tax credit, Professor Tobin rejects a children's allowance as inefficient. But a children's allowance, if it did away with the tax exemption for children, would probably be more efficient than a tax credit at the same payment level. Commonly, many economists have supported the negative income tax because of its presumed efficiency. But the Heineman Commission duly carefully reported that a negative income tax with a $3,600 minimum would be only 34 percent efficient.

So one perceives that a scale of income payments is one of variations approaches to efficiency. Stigma and regressive administration have become a much lamented method in practice, if not in controversy payers. Trading off a proposed benefit against an existing tax benefit is a method commonly for the tax credit and children's allowance. Designing a program for a

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